

## Message Text

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PAGE 01 OTTAWA 02806 302040Z

63

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 FEA-02 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-03 COME-00 DODE-00 FPC-01 H-03 INR-11

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 XMB-07

OPIC-12 LAB-06 SIL-01 PA-04 USIA-15 PRS-01 DRC-01

/205 W

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 4385

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EO 11652 NA

TAGS EFIN CA

SUBJ ECONOMIC FORECASTING

REF STATE 179865

1. EMBASSY UNABLE COMPLY COMPLETELY WITH SEPTEMBER 1 DEADLINE FOR REPORT REQUESTED REFTEL DUE ABSENCE FROM OTTAWA OF KEY GOC PERSONNEL WHO MIGHT BE ABLE SUPPLY PROJECTIONS OF CANADA'S INDUSTRIAL PRODUCTION INDEX FOR REST OF 1974 AND FOR 1975.

2. BANK OF CANADA AND FINANCE DEPARTMENT ONLY KNOWN GOC AGENCIES WHO ATTEMPT SHORT-RANGE FORECASTING, AND THEIR RESEARCH DIRECTORS WILL NOT RETURN OTTAWA UNTIL NEXT WEEK.

3. SPOKESMAN FOR ECONOMIC COUNCIL, WHICH ONLY HAS LIMITED OFFICIAL USE

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PAGE 02 OTTAWA 02806 302040Z

LONG-RANGE PROJECTIONS, TOLD EMBOFF THAT INDUSTRIAL

PRODUCTION INDEX WOULD PROBABLY BE STATIC FOR REST OF YEAR BUT CONTESTED THIS WAS PRIVATE OPINION NOT RESULT OF EC STUDY. STATISTICS CANADA, PREVENTED FROM LAW FROM FORECASTING, WOULD GIVE NO PROJECTIONS.

4. PRIVATE FORECASTS BY VARIOUS MARKET ANALYSTS, INCLUDING BANKS AND STOCK BROKERS, PREDICT SLOWING OF INDUSTRIAL OUTPUT FOR LATTER PART OF 1974 AND CONTINUING INTO 1975, BUT NO PRECISE FIGURES ARE GIVEN IN REPORTS THAT EMBASSY HAS REVIEWED.

5. CONFERENCE BOARD FORECASTER TOLD EMBASSY HE "RATHER PESSIMISTIC" ABOUT SHORT TERM CANADIAN INDUSTRIAL PRODUCTION AND GNP TRENDS. HE FORESAW MUCH HIGHER UNEMPLOYMENT, NO GROWTH IN LUMBER AND AUTO INDUSTRY BECAUSE OF LOWER US DEMAND, INFLATION RATES HIGHER THAN IN US AND GREAT UNCERTAINTY ABOUT MONEY MARKET DEVELOPMENTS.

6. DOMINION SECURITIES HARRIS, IN ITS AUGUST ECONOMIC REVIEW, STATED THAT "THERE ARE INCREASING SIGNS OF WEAKNESS" IN THE CANADIAN ECONOMY, AND "TOTAL EMPLOYMENT HAS SHOWN LITTLE OR NO GROWTH OVER THE PAST TWO MONTHS AND THE AVERAGE WORK WEEK IN MANUFACTURING HAS DECLINED." HOWEVER, IT WAS STILL FORECASTING A REAL GROWTH IN GNP OF 4 PERCENT FOR 1974 AND 5 PERCENT FOR 1975 WITH BUSINESS INVESTMENT GROWTH OF 18 PERCENT IN 1974 AND 15 PERCENT IN 1975.

7. AUGUST BUSINESS REVIEW OF THE BANK OF MONTREAL WAS SOMEWHAT MORE OPTIMISTIC ABOUT 1974 PERFORMANCE OF CANADIAN ECONOMY BUT WARNED THAT "SLACKENING EXPORTS AND A WEAKER HOUSING SECTOR SEEM CERTAIN TO BRAKE THE STRONG FORWARD MOMENTUM."

8. AUGUST ECONOMIC COMMENT OF THE BANK OF NOVA SCOTIA STATED THAT THE "OUTLOOK FOR THE CANADIAN ECONOMY THROUGH THE END OF THIS YEAR AND INTO 1975 IS .... RATHER MORE UP IN THE AIR." BANK STATEMENT LIMITED OFFICIAL USE

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PAGE 03 OTTAWA 02806 302040Z

POINTS TO "ON-GOING PUSH IN PRODUCTION COSTS" AS MAJOR FACTOR IN CANADIAN BUSINESS TRENDS.

9. TORONTO GLOBE AND MAIL OF AUGUST 30, UNDER THE HEADLINE "STAGFLATION ARRIVES: NO GROWTH AND 14.5 PERCENT INFLATION," STATED THAT "THE IMPACT OF THE TREND TO A RECESSION ABROAD HAS BEGUN TO BE FELT IN CANADA AS ONE OF THE MAIN WEAKNESSES IN THE SECOND QUARTER

RESULTED FROM DECLINING EXPORTS."

10. OECD STUDY PUBLISHED IN AUGUST ISSUE OF OECD OBSERVER FORECAST 5 PERCENT GROWTH IN CANADIAN GNP FOR 1974 AND STATED THAT "THE GROWTH OF OUTPUT, ALTHOUGH MODERATING SOMEWHAT DURING THE REMAINDER OF THE YEAR, IS LIKELY TO REMAIN RELATIVELY STRONG OVER THE FORECAST PERIOD."

11. RECENT STRIKES IN CANADIAN CONSTRUCTION INDUSTRY, REDUCED EXPORT TRADE SURPLUSES AND DECLINES IN BUSINESS CAPITAL INVESTMENT (IN REAL TERMS) WILL AFFECT 1974 CANADIAN INDUSTRIAL PRODUCTION INDEX. EMBASSY IS RELUCTANT TO SPECULATE ON HOW THESE FACTORS WILL CHANGE THE INDEX IN PRECISE NUMBERS SINCE EXOGENOUS FACTORS (U.S. AND OTHER INDUSTRIAL ECONOMIES) NOW ARE AFFECTING CANADIAN ECONOMY.

12. STATISTICS CANADA REPORTED AUGUST 23 THAT SEASONALLY-ADJUSTED INDEX OF INDUSTRIAL PRODUCTION FOR CANADA INCREASED 0.5 PERCENT IN JUNE TO 222.5 AND WAS 2.7 PERCENT HIGHER THAN JUNE 1973 LEVEL OF 216.7 (1961 IS USED AS BASE YEAR OF 100). FOR FIRST QUARTER OF 1974, INDEX WAS 224.6 AND SECOND QUARTER WAS 222.5, A DECLINE OF 0.9 PERCENT.

13. IMPORTS OF CRUDE OIL FOR APRIL WERE 30,098,592 BARRELS, VALUED AT C\$275,887,000; FOR MAY WERE 21,534,464 BARRELS, VALUED AT C\$177,778,000; AND FOR JUNE WERE 22,876,770 BARRELS VALUED AT C\$223,907,000, OR AN FOB UNIT VALUE OF C\$9.17, C\$8.26, AND C\$9.79 RESPECTIVELY. HOWEVER, CERTAIN RETROACTIVE PRICE LIMITED OFFICIAL USE

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PAGE 04 OTTAWA 02806 302040Z

INCREASES DETERMINED BY GOC MAY NOT SHOW UP IN TRADE FIGURES, AND DIVIDING TOTAL VALUE BY IMPORT VOLUME MAY BE MISLEADING.

14. EMBASSY WILL ATTEMPT OBTAIN FURTHER INFORMATION ON INDUSTRIAL PRODUCTION INDEX FORECASTS NEXT WEEK WHEN BANK OF CANADA AND FINANCE PERSONNEL RETURN.  
JOHNSON

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